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REPORT  
OF THE  
**Montana Taxation**  
AND  
**Consolidation Commission**  
TO THE  
**SENATE**  
AND THE  
**House of Representatives**  
OF THE  
**STATE OF MONTANA**  
**DECEMBER 30, 1932**

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# Letter of Transmittal

TO THE  
Senate and the House of Representatives  
OF THE  
State of Montana

December 30th, 1932

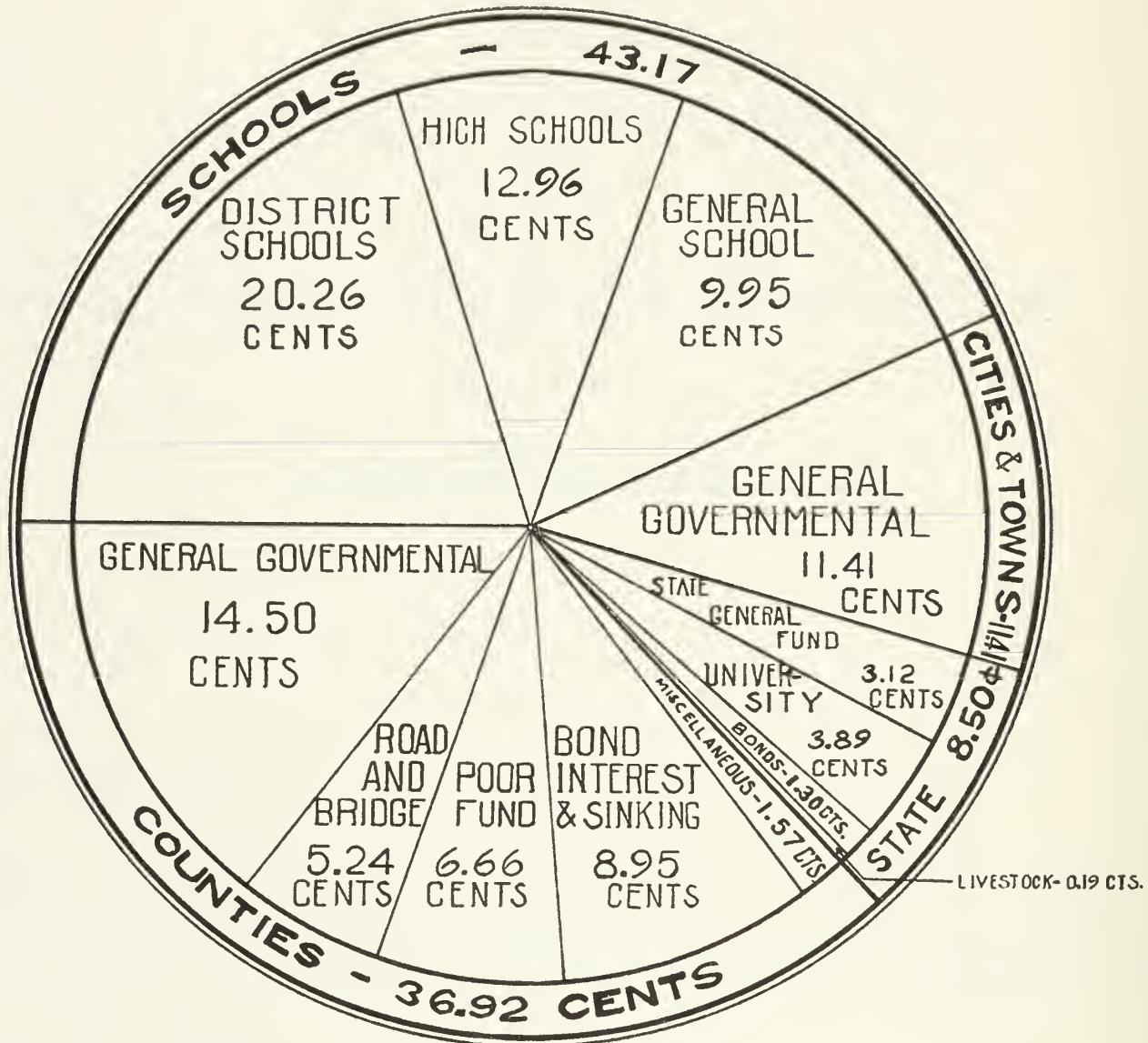
Your commission appointed as a taxation and consolidation commission of Montana to examine into the present system of taxation, and to recommend possible changes therein, acting under the terms of Chapter 190 of the Laws of 1931, has the honor to transmit its report.

JAMES H. STEWART,  
Chairman.

D. J. MURI,  
Commissioner.

JOHN J. GREENE,  
Commissioner.

# THE 1932 TAX DOLLAR



THIS TAX DOLLAR SHOWS THE DISTRIBUTION OF TAXES RAISED BY MILL LEVIES WHICH ARE APPLICABLE TO ALL PROPERTY, WITH THE EXCEPTION OF LIVESTOCK TAXES, WHICH ARE COMPUTED UPON THE VALUE OF LIVESTOCK ONLY. PER CAPITA (\$2.00) ROAD AND POOR TAXES, SPECIAL ROAD DISTRICT AND FIRE DISTRICT TAXES, DRAINAGE AND IRRIGATION DISTRICT, AND CITY & TOWN SPECIAL IMPROVEMENT DISTRICT ASSESSMENTS, HAIL INSURANCE PREMIUMS & MISCELLANEOUS LOCAL AND DISTRICT TAXES ARE ELIMINATED.

Under the provisions of Chapter 190 of the Laws of 1931 creating this commission, directing our labors and suggesting the scope of our recommendations, we were commissioned to:

First: Examine our present system of taxation together with possible changes therein to the extent that there be established a basic and fiscal policy of taxation in the State of Montana necessary to provide sufficient revenue to operate the state and local governments;

Second: To report our findings and recommend to your Honorable body such changes as, in our opinion, will tend to achieve this end, and at the same time tend to reduce the present costs and preserve the efficiency of the operation of our state and local governments.

Within the limits of time and the funds available (there was no appropriation made for this special work) it was obviously impossible to make an exhaustive study of expenditures and of governmental reorganization on a scale which would comprehend all of the political divisions of the state. Consequently we assumed the intent of the legislature to be that we should concern ourselves primarily with our state government.

At the outset we wish to state that Montana has been more progressive in trying to improve its tax system than most states of the Union. The legislature of 1917, at the request of Governor Stewart, provided for a special tax committee to study our system of taxation, and this committee in the spring of 1919 made its report to the governor, and to the legislature of that year, of their determination, facts found and certain recommendations. Based upon this report and upon the recommendations of this committee, the legislature of 1919 passed the property classification law which attempts to place a heavier tax burden upon **income producing** property than is placed upon **non-income producing** property such as household furniture, personal effects and so forth. This law provides that the net proceeds of mines should be taxed at 100 per cent of their full and true value; household goods and furniture, and personal property used by the owner for personal and domestic purposes, agricultural tools and implements should be taxable at 20 per cent of their full and true value; livestock and stocks of merchandise at 33½ per cent; lands with the improvements thereon, manufacturing and mining machinery at 30 per cent; shares of stock in national banking associations and moneyed capital of state banks at 40 per cent; moneys and credits of individuals at 7 per cent, and that all other property, not specifically enumerated, should be taxed at 40 per cent of its true and full value. In this unclassified property is included the intercounty lines of public utilities. The legislature of 1929 changed this classification with reference to banks and fixed their taxable value at 30 per cent of the full and true value of the stock of national banks and the moneyed capital of state banks, the same classification as real estate and improvements.

In 1917 the legislature passed a license tax upon corporations based upon their net income. In 1919 taxes were imposed upon freight line companies, and in 1921 license taxes were imposed on cement and coal business, based upon the tons produced, imported and sold; a gross production tax of 2 per cent was placed on oil, and a graduated inheritance tax law enacted. In 1923 a substantial tax was imposed upon sleeping car companies. In 1924 the people, by an initiated measure, enacted a law providing for a license tax on persons engaged in operating metal mines.

In 1922 the people by constitutional amendment provided for a state tax commission, the state board of equalization as it is now known, giving this board large powers of control and supervision over assessments and the equalization of tax values between the different counties of the state and individuals. In 1919 they passed a state budget act, and in 1929 a county budget act; in 1931 a law was passed providing for a school budget and a budget for cities and towns. In 1926 there was initiated and passed a tax upon gasoline of 3 cents per gallon, which was increased by the legislature of 1929 to 5 cents per gallon, upon all gasoline manufactured or sold in this state, proceeds of which were to go to the state highway commission for the purpose of building state and federal highways.

### **Where Is Your Tax Money Being Spent, For What Purpose and by What Division of Your Government?**

The place to start the study of taxation is at the spending end. In order to start here we must know **where** the money is going and **where** it is being spent, and by **what division** of government. The total tax bill of the state, counties, cities and towns, and school districts of Montana for 1932 levied upon all property of this state, exclusive of special assessments for special improvements, was the sum of \$24,075,535. Of this amount \$750,518 was the share of the state's general fund; the portion of the state educational institutions was \$938,127; the counties for their general fund, bond interest and sinking fund, road, bridge, poor and miscellaneous funds took \$8,888,757; taxes levied for school purposes, including general, high school and district school levies, amounted to \$10,391,332, and for cities and towns, exclusive of special improvement assessments, to the sum of \$2,746,139.

These figures can be more easily understood and analysed if pictured in terms of a tax dollar. Letting one dollar represent the total tax bill, we find that of this tax dollar 3.12 cents went to the general fund of the state; 3.89 cents to the Greater University of Montana; 36.92 cents to counties; 43.17 cents to maintain the public schools of Montana, and 11.41 cents to the cities and towns of the state. We call your special attention to chart No. 1 showing in particular the various funds into which the tax dollar is distributed.

Keeping these figures in mind, and these percentages, you could close the capitol building, discharge all the district judges in the state, cut the pay of all county attorneys by one-half; discharge all the prisoners in the state's prison, release the inmates of the insane asylum, the school for the deaf and blind, the patients at the Galen tuberculosis sanitarium, the girls and boys in the vocational and industrial schools, close the state orphans' home and turn the children out, dispense with the state board of health, the

livestock commission and sanitary board, and by so doing reduce the amount of ad valorem taxes paid by any taxpayer who now pays \$100 in taxes, by the sum of \$3.12.

We believe then that you will agree with us that if there is to be any appreciable reduction in the expense of government, it must come through a better administration of county, city and school affairs, and that this problem is purely a local one within the power of the people of the various counties, cities and school districts of this state.

In this connection we wish to congratulate the county, city and school officials who have so whole-heartedly cooperated with the general demand for tax reduction this year and by their united efforts reduced such governmental expense to the people of this state in the sum of one million, seven hundred fifty thousand dollars.

### General Fund Overdraft

You have heard and read considerable of late, and will hear much more during this legislative session of the overdraft in the state's "general fund," and you should be interested in ascertaining the principal causes that brought the overdraft about.

The overdraft in the general fund at the close of the fiscal year June 30, 1932, amounted to \$3,966,846. The first overdraft in the general fund occurred at the close of the fiscal year 1920, when it amounted to \$963,181. The following table shows the general fund overdraft by years:

Feb. 28, 1920.....	\$ 963,181.61
Feb. 28, 1921.....	1,787,596.03
June 30, 1921.....	2,142,926.97
"    1922.....	2,762,471.77
"    1923.....	3,618,545.56
"    1924.....	3,595,558.46
"    1925.....	3,931,593.59
"    1926.....	3,118,992.96
"    1927.....	3,164,596.52
"    1928.....	3,065,004.27
"    1929.....	3,274,873.63
"    1930.....	3,467,110.31
"    1931.....	3,929,841.74
"    1932.....	3,966,846.18

The chief cause of this overdraft was the failure to provide sufficient revenue to meet the appropriations made for the Greater University.

In 1920 the people of this state initiated and passed an act providing for a bond issue of \$5,000,000, of which amount \$3,750,000 was to provide additional buildings and equipment at the various units of our Greater University, and the remainder for a new vocational school for girls built in the Helena valley, and for additions to the State Orphans' home, the School for the Deaf and Blind, and the Montana State Industrial school at Miles City.

At the same election in November, 1920, there was initiated and passed an act to increase the tax levy upon property by one and one-half mills, the income therefrom to be appropriated for the support and maintenance of the Greater University.

In 1927, the legislature established the Eastern Montana Normal school at Billings, and in 1929, the Northern Montana school at Havre.

When new buildings are constructed and equipped, new colleges and schools established or their curriculums enlarged, the expense of maintaining such new buildings and such growing educational services to the youth of Montana increases proportionately.

The maximum student enrollment in the various units of our university has increased from 3,569 in the year 1921-22 to 4,946 in the year 1930-31.

The total expenditure for the university from the general fund for the 10-year period of 1921 to 1931 was \$9,424,688, while the income from the one and one-half mill levy voted by the people for the support of the university during the same period amounted to \$6,497,654, or approximately \$3,000,000 less than the people anticipated that it would take.

During this period of time the assessed and taxable valuations of property in Montana were decreasing. The taxable value, which is our tax base, and upon which our levies are applied, decreased from \$495,678,376 in 1921 to \$375,283,446 in 1932, a loss of \$120,394,930 in taxable valuation. The income to the general fund by reason of this decrease in taxable value was \$240,789 less for the year 1932 than for the year 1921.

As to details of this decrease in valuations we refer you to charts Nos. 2-3-4-5.

# ASSESSED VALUES - 1922-1932

REAL ESTATE & IMPROVEMENTS  
EXCLUSIVE OF CITY & TOWN LOTS

1922



1932



CITY & TOWN LOTS & IMPROVEMENTS  
1922 1932



1922

LIVESTOCK



1932



# ASSESSED VALUES - 1922-1932

## PERSONAL PROPERTY OTHER THAN LIVESTOCK

1922



1932

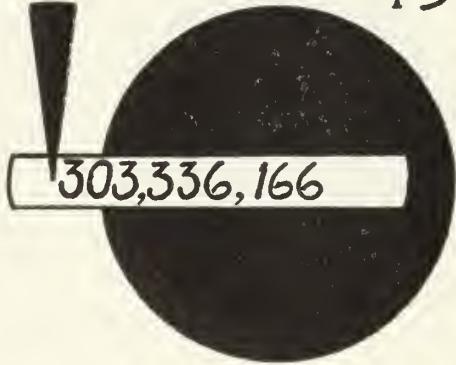


## PUBLIC UTILITIES ASSESSED BY STATE BOARD OF EQUALIZATION

1922



1932



## ALL PROPERTY

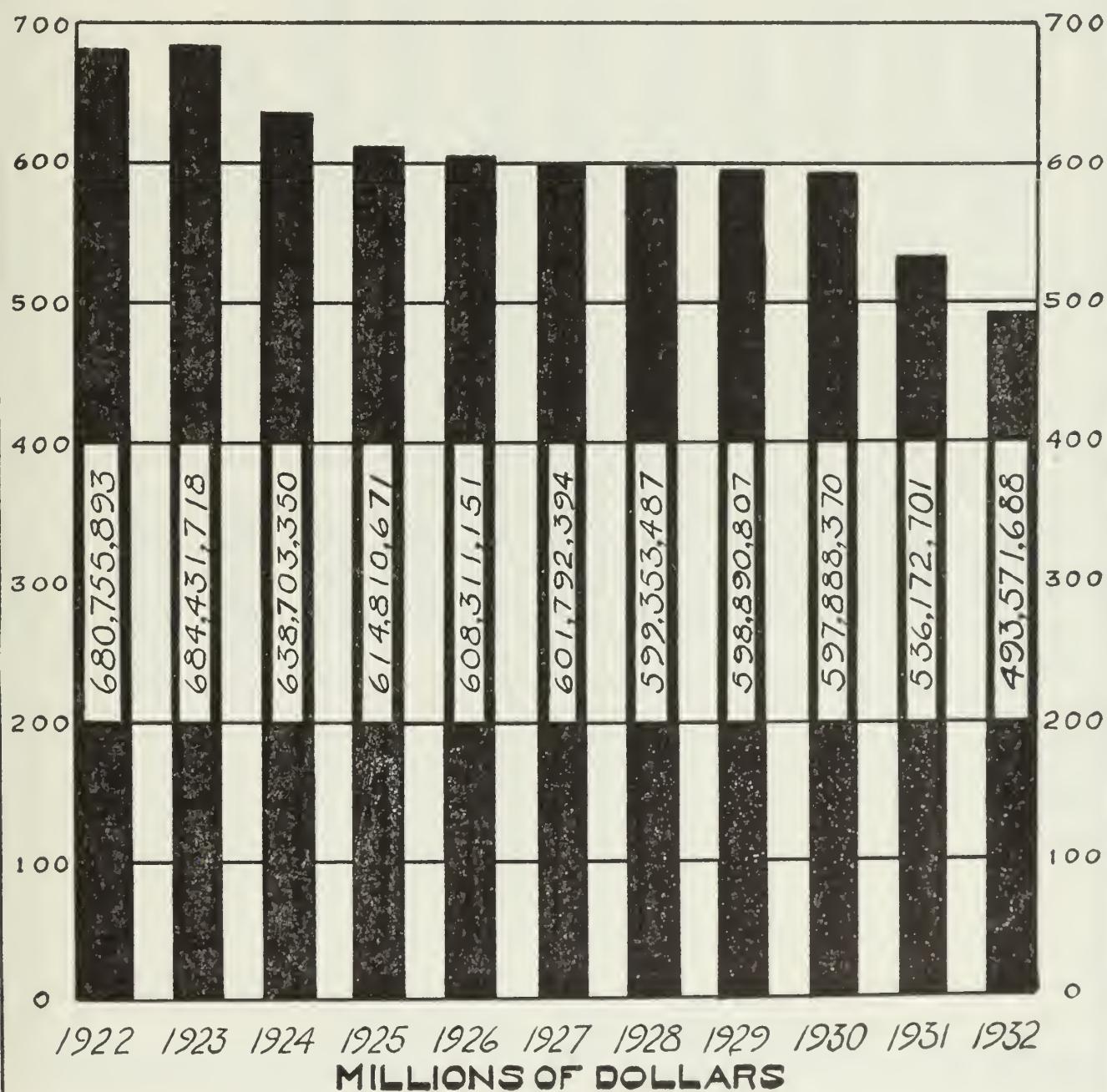
1922



1932



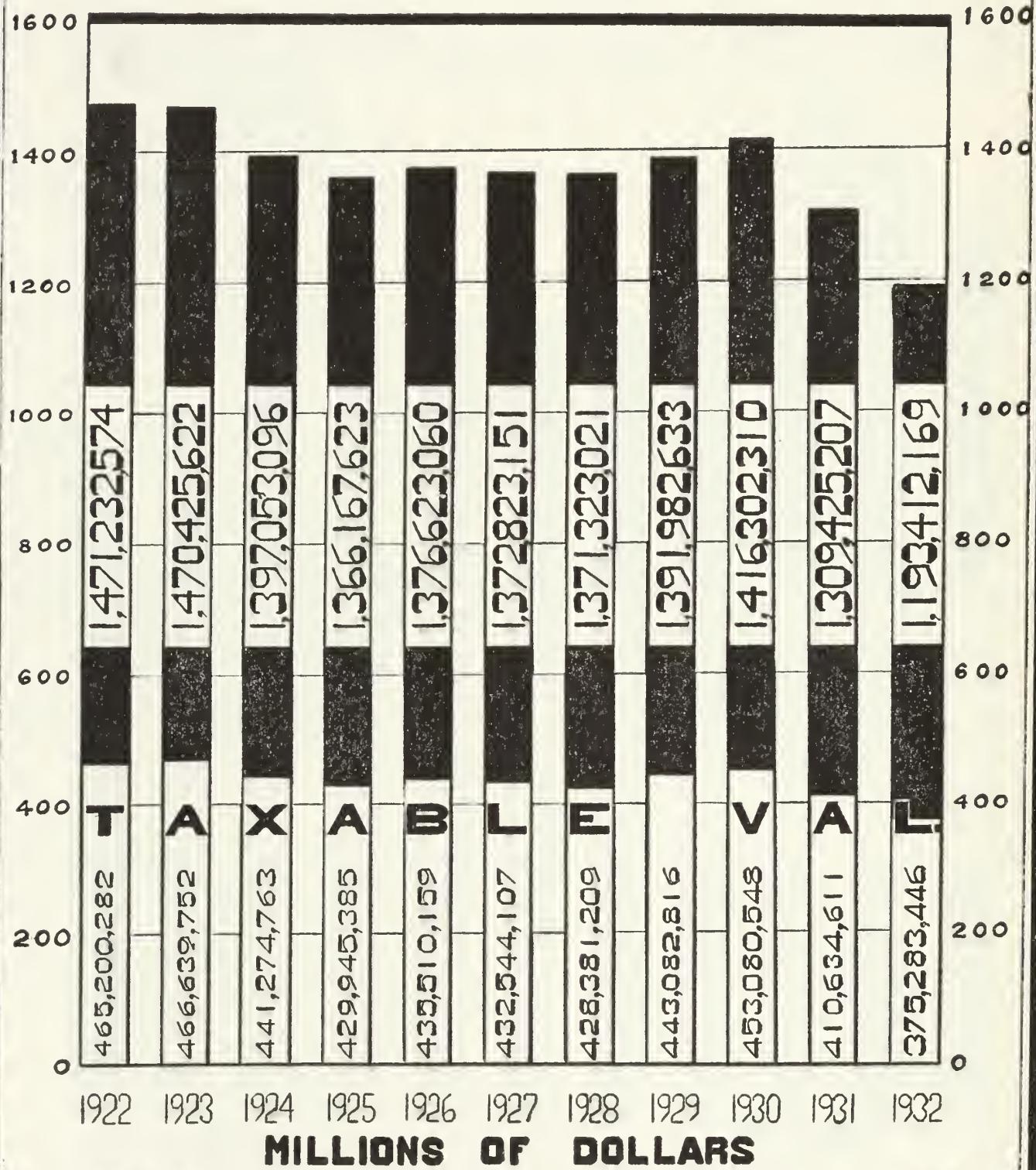
# ASSESSMENTS OF REAL ESTATE AND IMPROVEMENTS OTHER THAN CITY AND TOWN LOTS 1922 TO 1932 INCLUSIVE



# TOTAL ASSESSED & TAXABLE VALUATION

OF MONTANA

1922 — 1932



Out of the general fund appropriations for our various institutions there has been expended during the past 10 years approximately \$500,000 for construction of new buildings and badly needed additions at the Montana State Prison and for the State Hospital at Warm Springs and other institutions. These are capital expenditures which should be paid for over a period of years rather than being paid out of current appropriations.

This is our analysis of your general fund overdraft, and in our opinion, the main causes of its occurrence.

We make this assertion after a careful study of the expenditures of the other departments of your state government which, contrary to common talk and uninformed opinion, has not increased but has actually decreased during the last decade, and this in spite of the increase in inmates of our various state institutions and increased demands upon the various departments of state. (We refer you to page 45 of the 1930 budget report.)

This overdraft should be provided for during this session of the legislature either by increased revenue or providing for a bond issue to fund this indebtedness. This is the most serious problem confronting your Honorable body.

### TAX ON PERSONAL AND CORPORATE INCOMES

President Hoover in a message to the National Tax Conference last September made the following statement:

"Along with the necessity for drastic tax reduction, the most pressing fiscal problem of the day is to adjust the state and local tax systems to modern conditions so as to relieve the burden on real property which now presses so inequitably upon the farmer and the small home owner."

The president could have, of course, included amongst those needing relief all owners of real property both large and small.

When we face the fact of the enormous amount of real estate being taken over by counties for nonpayment of taxes, we must admit the president to be correct.

A committee appointed by the National Tax Association reported to this association in the year 1919 a plan commonly known as the "Model Plan of State and Local Taxation." This plan calls for:

- (1) A property tax;
- (2) A personal income tax on net incomes, levied where the person resides, and graduated so as to increase the rate upon those in receipt of large incomes;
- (3) A comprehensive business tax on net income levied at a flat rate where the business income arises.

As stated before, Montana has not been backward in improving its tax system but we believe it can be further improved by enacting a graduated personal income tax and a license tax upon corporate business as recommended in the "model plan." In times such as we are now going through the faults in our tax system are greatly accentuated. We are gradually coming to the belief that that the general property tax cannot be successfully administered under conditions such as exist in the United States, particularly with reference to reaching intangible wealth.

Students of taxation have for years recommended the true course of reform to lie in the direction of developing personal and business taxes. Such taxes now exist in some 20 states and are being advocated in many others.

We are the only great nation on earth that has not long since abandoned the general property tax.

We will not lengthen this report by arguments in favor of such taxes. Volumes have been written on the subject and exhaustive material is available to the members of your assembly.

We all agree that taxes should not be paid out of "capital," but this is what has been occurring during the past few years. That is one reason for the counties having to take over so much real estate for delinquent taxes. The income of the people available for taxes has greatly diminished and, due to present economic conditions, their capital reserves have become exhausted. Why, then, should not taxes be paid in proportion to, and measured by income?

During the 1931 session of the legislature two proposed constitutional amendments to permit the imposition of graduated and progressive income taxes were introduced in the House and Senate but failed of securing the necessary two-thirds majority.

Able lawyers disagree as to the authority of this state to impose such a tax without a constitutional amendment but we believe, after careful analysis of our court decisions and the decisions of courts of other states, that such an amendment is not necessary, and that the practical thing to do is to go ahead on the assumption that our supreme court will follow the weight of judicial opinion when the issue comes before it, and hold that such a tax is not prohibited by our constitution.

The 1931 legislature of the State of Idaho proceeded in this manner and at the same time submitted a constitutional amendment to the people giving the legislature enlarged powers with reference to taxation. The court held a constitutional amendment not necessary. (See Diefendorf vs. Gallet, 51 Idaho 619.)

As to the amount of revenue that could be anticipated from such a tax we would not venture to say, but we believe it would be a substantial amount. The following table gives the collections in Montana by the Federal government from its income tax law:

#### Collections by United States Collector of Internal Revenue

Year	Amount
1928 Individuals .....	\$1,426,179.72
Corporations .....	1,613,318.18
	<hr/>
	\$3,039,497.90
1929 Individuals .....	1,364,461.87
Corporations .....	1,164,695.24
	<hr/>
	\$2,529,157.11

Year		Amount
1930	Individuals .....	1,365,849.94
	Corporations .....	1,164,700.24
		<hr/>
		\$2,530,550.18
1931	Individuals .....	910,113.45
	Corporations .....	780,133.18
		<hr/>
		\$1,690,246.63
1932	Individuals .....	383,858.40
	Corporations .....	366,867.89
		<hr/>
		\$ 750,726.29

We believe, however, that the revenue derived from any new tax should be used to reduce the tax burden upon real property.

## CORPORATION LICENSE TAX

The Montana corporation license tax law enacted in 1917 is archaic, difficult to administer and is easily evaded.

It should be amended very materially to cure defects we have discovered in administering it and to impose additional provisions proven necessary and desirable in other states. This law should be amended so as to provide for an increased rate, a minimum fee for filing the report and repealing the provision allowing the \$2,500 arbitrary exemption.

As to the tax rate that should be imposed on net incomes of business corporations, we wish to call attention to the fact that the present Montana rate of 1 per cent of the net income is lower than any other state in the Union. The following tables give the rate imposed in the 21 states now having corporation excise or income taxes and the amount of revenue produced thereby:

### Corporation Income Tax Rates

State	Percentage		
		Jan. 1, 1932	
Arkansas .....	2		
California .....	4	(a)	
Connecticut .....	2	(b)	
Georgia .....	4		
Idaho .....	1-4		
Massachusetts .....	2½ -	(d)	
Mississippi .....	2½ -	5½	
Missouri .....	1-4		
Montana .....	1		
New York .....	4½ -	(d)	
North Carolina .....	5½		
North Dakota .....	3		
Oklahoma .....	2-5		
Oregon .....	8	(e)	
South Carolina .....	4½		
Tennessee .....	4		
Utah .....	3		
Vermont .....	2		
Virginia .....	3		
Wisconsin .....	2-7	(e)	

- (a) Four per cent less 10 per cent of real estate taxes and all local personal property taxes up to 75 per cent of the 4 per cent of net income. Minimum tax, \$35.00.
- (b) Based on the Connecticut portion of the amount of income on which the corporation was required to pay a tax to the United States, a minimum of \$10.00 is due.
- (c) Personal property tax offset not exceeding 90 per cent. Tax to be not less than \$10 after 1930. (\$25.00 in 1930).
- (d) Alternative tax.
- (e) Surtaxes add one-third less \$75 to tax.

**Corporation Income Tax Receipts**  
**1926-1931**

(In thousands of dollars)

State	1926	1927	1928	1929	1930	1931	1932
Arkansas .....	.....	.....	.....	423	427	168	
California .....	.....	.....	.....	6,254	6,816	5,473	
Connecticut .....	1,996	2,587	2,623	2,471	2,984	3,535	
Georgia .....	.....	.....	.....	465	448	981	
Massachusetts .....	5,540	5,028	5,052	4,975	5,474	4,250	
Mississippi .....	935	889	988	941	1,012	1,044	
Missouri .....	.....	.....	.....	1,700	1,843	1,368	
Montana .....	289	284	245	340	441	168	115
New York .....	35,433	44,645	51,132	53,146	64,141	65,798	
North Carolina .....	4,349	4,637	5,841	5,210	5,591	4,909	
North Dakota .....	.....	.....	.....	319	271	142	
Oregon .....	.....	.....	.....	.....	700	500	
South Carolina .....	1,078	1,419	1,864	1,666	1,502	1,362	
Tennessee .....	742	718	701	807	808	472	(inc.)
Virginia .....	1,713	1,677	2,019	2,894	1,964	2,065	
Wisconsin .....	9,009	12,452	10,311	11,230	12,028	10,421	

The payment of a small minimum tax would pay all of the expense of administering the law and would tend to prevent extreme fluctuations in revenue receipts between the lean and prosperous years.

The additional revenue derived from increasing the rate and providing for a minimum tax should be used to reduce the levy upon property for state purposes and a portion credited to the common school equalization fund.

#### **TAX ON CIGARETTES**

When we consider the present overdraft in the general fund, we are constrained to urge the enactment of revenue measures that will bring in substantial amounts to reduce this overdraft. We are in favor of, and recommend the enactment of a sales tax upon cigarettes. Fourteen states now impose such a tax and they all report that it is easily administered, results in the collection of substantial revenue and is not unpopular or resented by the consumers.

It is branded by the cigarette manufacturer as a "nuisance" tax but cannot we apply the same term to any and all taxes. Most property owners feel that their tax burden is more than a nuisance.

Considering the population of Montana and comparing the same with the population of other states now imposing a sales tax upon cigarettes, we estimate that by levying a substantial tax there could be collected in Montana approximately \$300,000 annually from this source. There should be safeguards drawn around such additional revenue so that there will be, not merely more money to spend, but more money with which to pay our existing obligations.

## REVOLVING APPROPRIATIONS

Section 194, Montana Revised Codes 1921, provides that: "For the support and endowment of each and every of the state institutions of the State of Montana now existing, or hereafter to be created, there is annually and perpetually appropriated respectively:

- (1) The income from all permanent funds and endowments, and from all land grants as provided by law;
- (2) All fees and earnings of each and every of such state institution, from whatsoever source they may be derived.
- (3) All such contributions as may be derived from public or private bounty.

This statute is clearly unconstitutional and should be repealed.

Section 10 of Article 12 of the Constitution of the State of Montana provides: "All taxes levied for state purposes shall be paid into the state treasury and no money shall be drawn from the treasury but in pursuance of specific appropriations made by law."

During the biennium from July 1, 1930 to June 30, 1932, the following amounts were expended from the state treasury without specific appropriation therefor:

Acct. No.	FUND	EXPENDITURES		
		July 1, 1930 to June 30, 1931	July 1, 1931 to June 30, 1932	
351	Agricultural College Revolving Fund .....	\$104,584.77	\$ 81,170.03	
352-A	Agricultural Dept.—Grain Grading Revolving Fund .....	35,121.46	20,414.31	
352-B	Agricultural Dept.—Horticultural Revolving Fund.....	15,124.37	12,501.94	
352-C	Agricultural Dept.—Dairying Revolving Fund.....	19,001.54	13,230.64	
352-D	Agricultural Dept.—Real Estate Revolving Fund.....	2,154.79	2,259.54	
352-E	Agricultural Dept.—Apiculture Revolving Fund.....	1,245.68	462.02	
352-F	Agricultural Dept.—Labor and Publicity Revolv. Fund..	1,715.72	100.49	
352-G	Agricultural Dept.—State Fair Revolving Fund .....	43,649.54	23.36	
352-H	Agricultural Dept.—Fertilization Revolving Fund .....		21.25	
353	Deaf and Blind School Revolving Fund.....	15,932.86	13,363.48	
354	Industrial School Revolving Fund.....	2,240.11	3,479.40	
355	State Hospital Revolving Fund.....	39,670.91	39,226.01	
356	Normal College Revolving Fund.....	22,742.24	17,839.38	
357	Orphans' Home Revolving Fund.....	5,243.16	3,080.49	
358	Prison Revolving Fund .....	14,974.38	11,592.31	
359	School of Mines Revolving Fund.....	11,820.67	14,731.29	
360	Soldiers' Home Revolving Fund.....	983.43	14.66	
361	Tuberculosis Sanitarium Revolving Fund.....	63,267.07	45,468.16	
362	University Revolving Fund.....	98,959.88	104,376.85	
363	Experiment Station Revolving Fund.....	26,488.90	9,980.32	
364	Extension Service Revolving Fund.....	3,977.31	2,431.42	
366	Vocational School for Girls Revolving Fund.....	9,184.38	8,493.07	
368	Railroad Commission Revolving Fund.....	2,805.69	.....	
369	Historical Library Revolving Fund.....	75.52	57.50	
370	Grain Laboratory Revolving Fund.....	1,484.12	1,151.30	
371	Experiment Station Revolving Fund.....	10,628.41	7,673.93	
372	Board of Health Revolving Fund.....	10,807.44	7,974.26	
373	Eastern Montana Normal School Revolving Fund.....	13,614.19	15,715.29	
374	Board of Entomology Revolving Fund.....	3,018.68	2,311.55	
375	Garment Factory Revolving Fund.....	10,213.39	1,837.34	
376	North Montana School Revolving Fund.....	7,804.95	7,515.06	
377	Regional School, Miles City, Revolving Fund.....	2,396.25	2,036.87	
378	Applied Music, Supt. Pub. Instr. Revolving Fund.....	168.12	466.19	
379	State College Petroleum Revolving Fund.....	657.93	.....	
<b>TOTAL.....</b>		<b>\$601,757.86</b>	<b>\$450,999.71</b>	

This method of making expenditures is unlawful and is contrary to the principle of budget control and economical administration of government. Such funds do not receive the same careful scrutiny as is given to funds appropriated for a specific purpose.

The practice of past legislatures in making blanket appropriations of "all earnings of said institutions" should be discontinued.

### **STATE DEPARTMENTS RENDERING SPECIAL SERVICE TO INDIVIDUALS AND SPECIFIC INDUSTRIES**

There are certain state departments that are rendering special service to individuals and specific industries that draw considerable amounts from the state general fund.

We believe such individuals and industries receiving this special service should pay for same rather than the general taxpayer. For example, the Industrial Accident Board administers the Workmen's Compensation law providing for three plans of insurance of workmen engaged in hazardous occupations. This department to a great extent sustains itself from fees collected, but in addition to their earnings there was appropriated from the general fund for the last biennium the sum of \$65,850. By rearrangement of the schedule of fees chargeable by this department, we believe it could be wholly self-sustaining.

Many of the activities of the livestock sanitary board and the livestock commission comprise direct personal service to individuals engaged in the livestock business, such as recording and inspection of brands, inspection of shipments of cattle and sheep, inspection of dairy herds, services of state veterinarians, stock detective service and many other services rendered to this particular industry. There was appropriated out of the general fund for the livestock sanitary board and the livestock commission for the last biennium, in addition to receipts from fees and the special 4 mill levy upon livestock, the sum of \$170,000.

The bee industry in the year 1925 demanded and secured the division of apiculture in the department of agriculture. We are reliably informed that at the time this division was created, the representatives of this industry assured the members of the legislature that if created it would be self-sustaining. As a matter of fact the law creating this department specifically provides: "The funds accruing from registration fees and made available for the enforcement of laws concerning the business of bee-keeping in Montana shall be all of the money which the secretary of agriculture, or his deputies, shall spend for the enforcement of this act." Notwithstanding this statute we find that each succeeding legislature has appropriated out of the general fund for the use of this division the sum of \$5,000 a year, or a total of \$30,000.

### **Consolidation of State ~~Boards~~ and Departments**

We were commissioned to inquire into the question of consolidating boards and departments of state, and the advisability of abolishing certain state offices to the extent that the costs of operation may be reduced and at the same time secure greater efficiency in their operation.

After interviewing the heads of the various departments and familiarizing ourselves with their various activities, we feel that it would be presumptuous on our part to make any recommendations on this subject. The various boards and departments were created by the past legislatures at the urgent demand of the people and certain interested industries, and unquestionably in the interest of the public welfare.

You, as representatives of the people, know better than we do if your constituents have changed their minds and wish to dispense with any of the services now rendered by these departments.

We find little or no duplication of endeavor where consolidation of boards or departments would result in any material saving and at the same time increase the efficiency of such departments.

We recommend that you appoint a joint committee of the Senate and the House to make investigation of the work of the various departments and to ascertain first hand the advisability of abolishing any state office or board or of consolidating same.

## PUBLIC SCHOOLS

Taxes levied upon property for the support and maintenance of the public schools of Montana amounted to \$11,384,401 for the year 1931. This was reduced to the sum of \$10,394,332 for the year 1932. This constitutes 43.17 per cent of total taxes levied for all purposes.

In addition to ad valorem taxes, the public schools also receive the following sums from the following sources:

SOURCES	Amount 1930-31	Amount 1931-32
Income from state lands and from permanent school funds derived from sale of state lands.....	\$1,084,231.59	\$ 832,622.50
Other sources such as fines, forest reserve, sale of school property, etc. ....	566,921.42	812,438.25
One-half oil royalties paid by Federal government....	30,861.04	14,845.20
Special State appropriations .....	50,695.99	56,596.02
Equalization fund derived from one-half inheritance tax, one-half oil royalties, one-half metal mines tax and one-fourth of oil license tax.....	463,010.88	351,891.95

The amount of property taxes levied for the support and maintenance of the public schools for the year 1922 amounted to \$10,809.789. In addition to this the public schools received for their maintenance from other sources the sum of \$1,399,021.

The elementary school enrollment for the year 1922 was 99,000 and for the year 1932 was 85,500. This decrease is, no doubt, due to the fact that our state's population has decreased during the same period. The interesting fact, however, remains that the enrollment in our public high schools has very materially increased. There were 19,120 students enrolled in our high schools in 1922 and this year there were 30,385.

The expense of maintaining our high schools has increased and for quite obvious reasons.

In addition to the increased enrollment it is well to consider the different courses that are being offered in high schools today that were not offered twenty years ago, such as courses in vocational training, agricultural courses, shop and trade courses, home economics, music, art, drama, public speaking, shorthand and typewriting and business courses, aviation and courses in modern languages.

The offering of such courses in the high schools of the state costs money and this money comes out of the taxpayers' pockets.

The truth of the matter is that during the prosperous years highly organized groups demanded and secured greater governmental and educational services with little regard for the limitation of tax-paying ability.

These same groups are now clamoring loudly for tax relief but we question if they will be as willing to give up any of this governmental or educational service. The fact is that though the average taxpayer would like to have his taxes reduced, he has little desire to diminish or go without the services for which such taxes pay. Every proposed measure for economy will meet with organized resistance.

The people have not heretofore realized that there is a limitation on the amount of the collective income of all the people which can be afforded for purposes of education or government. If the present reduction in the income of the people persists for any considerable time, there must come a retrenchment in the amount of money spent for education.

It seems to us, however, that this is purely a local problem. The people themselves should be able to solve their own problem as it affects their own situation within their own county or school district. It does not seem to us that any new legislation is needed.

It is true that some school districts have more revenue than they need which leads to extravagance, while other districts are woefully short of revenues. **There should be worked out a method of state aid for schools and the machinery set up for the distribution of such aid in a logical manner so as to permit the equalization of educational opportunity.**

This is a problem that we have not had the time to work out to our own satisfaction and we recommend that this legislature appoint a committee to study and report upon this subject.

## COUNTIES

The amount of taxes levied for county purposes for the year 1932 was the sum of \$8,888,757, a decrease of \$500,000 from the year 1931 and a decrease of \$1,180,000 from the amount levied for this purpose ten years ago.

The counties are gradually getting out of debt. The total net indebtedness of the counties of Montana for the year 1923 was the sum of \$27,708,650 and for the year 1932 amounted to \$14,859,000, a decrease of \$13,850,000—just one-half of what it was ten years ago.

We believe this shows that our boards of county commissioners are cooperating with their taxpayers in keeping down the cost of county government.

Of the amount levied for county purposes this year, \$2,154,134, or 24.23 per cent, was levied to pay interest and meet bond sinking fund requirements; \$1,260,603, or 14.18 per cent, was levied for roads and bridges; \$1,604,822, or 18.05 per cent, to care for the poor and indigent, and the balance for general county governmental purposes.

We find that most of the county officials of the state are economizing in every way possible and still perform the duties of their offices and render the service demanded of them. Some few of them, however, are glaring examples of wasteful inefficiency and extravagance and should be relegated to the army of the unemployed by their local electorate.

Certain county officials are required by law to render special service to individuals. For instance, county clerks are required to file contract notes, chattel mortgages and mechanics liens, and record deeds, leases and other instruments. Sheriffs are required to seize property under chattel mortgage foreclosures and executions and to serve legal papers, and the clerk of the court must file and record papers and court orders in probate and civil cases. All of these special services are primarily for the special benefit of the individual demanding such services and such individual should pay the entire cost of these services rather than the general taxpayer.

The schedule of fees now existing is entirely inadequate to pay for the cost of such services and we recommend that the fees charged by county offices be considered by this legislature and increased very materially so that the offices rendering special services may be more self-sustaining and thereby relieve the taxpayer of this expense.

## CITIES AND TOWNS

The cities and towns of Montana for the year 1932 levied ad valorem taxes in the amount of \$2,746,139 for general governmental purposes. This is \$200,000 less than was levied for the year 1931 and is approximately the same amount as was levied for the year 1922.

This seems like a considerable amount in times of depression and we do know that there are some of the cities and towns of Montana that need business managers but this, again, is not a legislative matter. There are plenty of laws on our statute books to take care of any evils that may exist in any particular city or town if the people of that city would take sufficient interest in their city affairs to make use of them.

A municipal corporation is entirely different from a private corporation. The private corporation may suspend business in times of depression but the public corporation must continue to function. The city must maintain its system of sanitation and health protection, provide peace officers to safeguard life and property, fire-fighting equipment and personnel to respond to any alarm, keep the streets repaired and lighted and generally provide for the common welfare of its inhabitants. Should the city fathers desire to discontinue any service heretofore rendered, they will immediately be subject to pressure of organized groups to continue the service and, no doubt, be subjected to personal abuse.

What is needed is a spirit of helpful cooperation with the harassed public officials on the part of the sound-thinking residents of our cities and towns rather than any new legislation.

In conclusion we wish to say that the time available for this special investigation and report was limited and it was physically impossible for us to cover the whole field of taxation or fiscal policy, a field which is as broad as government itself.

We sincerely hope that this report will be of help to your Honorable Body in attempting to solve this, the greatest problem confronting you.

For the purpose of this report we have collected data, copies of laws of other states and other information that is available to you and which we will gladly furnish upon request.

We wish to offer our assistance, and the assistance of our entire department in rendering any further service within our power.

Respectfully submitted,

JAMES H. STEWART,  
Chairman

D. J. MURI,  
Commissioner.

JOHN J. GREENE,  
Commissioner.

# WHERE THE 1932 TAX DOLLAR COMES FROM

